MULTIMEDIA UNIVERSITY

STUDENT ID NO

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FINAL EXAMINATION

TRIMESTER 2, 2022/2023

DTX5024 – TAXATION 2

(All sections/Groups)

14 JULY 2023
9.00 a.m – 12.00 p.m
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 11 pages with 5 questions.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

Fly High Bhd is an engine manufacturing company based in Semenyih, Selangor. It started its operation on 1 January 2019 with a paid-up capital of RM2.2 million. The company prepares its accounts to 30 June annually.

The company's profit and loss account are as follows:

Fly High Bhd
Statement of Profit and Loss
For the year ended 30 June 2022

	Notes	RM	RM
Sales			16,340,700
Less: Cost of sales	1		8,646,000
Gross profit			7,694,700
Add: Other income	2		360,500
			8,055,200
Less: Expenses			
Salaries and wages	3	2,520,000	
Employee Provident Fund contribution	4	647,000	
Advertising	5	178,000	
Entertainment	6	128,460	
Professional fees	7	95,740	
Utilities	8	17,000	
Training and research	9	49,500	
Donations	10	70,000	
Installation of machine		15,000	
Repainting of office premises		7,800	
Penalty for late payment of tax filing		3,500	
			(3,732,000)
Net profit before tax			**RM4,323,200**

Notes to the accounts:

1. Cost of sales included the following:

	RM
Depreciation of fixed asset	504,500
Provision for stock obsolescence	82,000
Damaged stocks written off	32,100

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2. Other income comprises:

	RM
Rental income	249,500
Interest on deposits placed with a licensed finance company	85,400
Gain on disposal of van	25,600
	360,500

3. Included in the salaries and wages are RM48,000 salaries for two disabled employees who are working in the production line and incentive bonus equivalent to two months' salary.

4. The contributions to the Employee Provident Fund for a group of general managers amounted to RM600,000, which represents 21% of their total remuneration.

5. Advertising expenses comprise:

(a) The sum of RM37,000 was incurred by the company on participating in international standardization activities approved by the Department of Standards Malaysia.
(b) Contribution-in- kind for the provision of library facilities which are opento the public, amounting to RM118,000.
(c) The balance of the expenses refers to advertising the company's products in local newspapers and radio stations.

6. Entertainment comprises:

	RM
Dinners and lunches provided to suppliers	80,000
Meals and refreshments to employees during a promotional campaign	13,860
Family day to all staff and their family members	34,600
	128,460

7. Professional fees comprise:

	RM
Tax filing and secretarial fees	20,000
Audit and accounting fees	37,240
Registration of trademarks (promotion of export)	22,000
Legal fees in obtaining a term loan	16,500
	95,740

8. Utilities

Included in the above are deposits of RM4,500 for water and electricity in connection with the expatriate employee's house.

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9. Training and research comprise:

	RM
Payments to an approved research and development company for it's service to obtain result from the study	37,000
Routine product testing and quality control expenses	12,500
	49,500

10. Donations comprise:

(a) The sum of RM30,000 cash donations were contributed to approved institutions.
(b) The company also donated of five smart television sets to approved institutions amounting to RM40,000

11. Capital allowances on factory machineries are as follows:

	RM
Brought forward from previous year	34,000
Current year capital allowance	720,500

12. Balancing charge is RM23,000 for the year of assessment 2022.

Required

(a) Compute the Statutory Business Income for Fly High Bhd for the year assessment 2022. Start your computation from the net profit before tax. (19 marks)

(b) List any **TWO (2)** types of badges of trade. (1 marks)

(Total: 20 marks)

Continued ...

QUESTION 2

Dark Shadow Sdn Bhd manufactures and distributes bicycles. It closes its account to 31 December every year. The company acquired non-current assets for the purpose of its business. The details of the assets are as follows:

1. **Moulding machine**
   Dark Shadow Sdn Bhd acquired a new moulding machine for RM140,000 on 15 April 2020. An additional RM230,000 was incurred in respect of site preparation and cutting and levelling of the land to install the machine. The machine was ready to use on 1 June 2020.

2. **Air-conditioner**
   One unit of air-conditioner (2.0 HP) had been acquired on 24 September 2020 for RM1,980. It was sold for scrap on 5 October 2022 for RM200. Dark Shadow Sdn Bhd claimed this air-conditioner was a small value asset when it was acquired.

3. **Office equipment**
   The office equipment incurred on 31 December 2020 amounted to RM750,000. The equipment was used for business purposes.

4. **Toyota Camry**
   In August 2020, the company bought a new Toyota Camry costing RM219,800. The car was registered as a non-commercial vehicle. It was used in the company's business but subsequently sold to its staff on 11 November 2022 for RM45,000.

5. **Honda CRV**
   The ultimate SUV, Honda CRV which is not in use for commercial was acquired through hire purchase and the deposit was paid on 31 July 2019.

	RM
Cost of car	150,000
Deposit	30,000
Hire purchase loan	120,000

The total sum is repayable in 40 equal monthly instalments with effect from 1 September 2019.

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6. Renovation cost

In addition to the non-current asset above, the cost of renovating the office area, costing RM26,000 was charged to profit and loss.

Required

(a) Compute the capital allowance and balancing allowance/charges applicable to Dark Shadow Sdn Bhd for the relevant years until the year of assessment 2022. Apply the 10% rules where necessary. (18.5 marks)

(b) Explain the tax treatment of capital allowance on the hire purchase asset. (1.5 marks)

(Total: 20 marks)

QUESTION 3

Part A

Scotty Tech Sdn Bhd specialises in the manufacturing of soldering iron in Malaysia and closes its accounts to 31 December annually.

The company commenced the construction of a factory building on 1 June 2018 and completed the building on 27 April 2019.

The following expenses were incurred for the constructions:

Expenditure	**RM'000**
Cost of land	680
Stamp duty for purchase of building	8
Piling	60
Architect fee	200
Cost of preparing plans	10
Legal fees (RM10,000 related to land)	25
Building plan approval fee	20
Construction cost	1,365
Plumbing and wiring	140
Total costs	**2,508**

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15% of the total floor space of the factory was used as an office. The factory was sold on 31 December 2022 for RM4 million (including RM2 million in respect of the cost of land).

Required

(a) Calculate the qualifying building expenditure for the building. (5.5 marks)

(b) Compute the and industrial building allowance available for Scotty Tech Sdn Bhd for the relevant years until the year of assessment 2022. (6.5 marks)

Part B

Pakya Wood Sdn Bhd carries on a business of timber extraction from a forest in Kelantan.

Expenditure	RM	Date incurred
Construction of road	120,000	1.4.2018
Construction of living accommodation for workers	65,000	20.6.2018
Construction of office building	38,000	1.8.2018
Purchase a house for a manager	185,000	1.1.2019

Pakya Wood ceased to extract timber permanently on 31 October 2022 and disposed of the forest on 1 February 2023. The sales proceed, of RM50,000 were received in year 2019.

Required

Compute the forest allowance and charges in respect of the timber extraction business of Pakya Wood Sdn Bhd for all the relevant years of assessment. Assume no election was made to spread back the forest charges. (8 marks)

(Total: 20 marks)

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QUESTION 4

Juwita and Ramly are partners of J&R Partners. The business has been employing packaging and delivery operators since 1 July 2019. The partnership agreement provides the following:

	Juwita (RM)	Ramly (RM)
Salary per month	4,000	4,000
Share of divisible income	70%	30%
Capital contribution	100,000	200,000

For the year ended 30 June 2022, J&R Partners derived the provisional adjusted income amounted to RM102,000, whilst its capital allowances were RM54,000.

Additional information:

1. Interest on capital contribution of 6% per annum for each partner.
2. Ramly has a carried forward business loss of RM13,000 from the year of assessment 2021.
3. Apart from the partnership business, Juwita also runs a business agency as a sole proprietorship. During the year of assessment 2022, the business made an adjusted loss of RM3,500.

Required

(a) Calculate the divisible income. (5 marks)

(b) Calculate the adjusted income for each partner. (7 marks)

(c) Calculate the total income of each partner. (6 marks)

(d) State with reasons, whether partnership is a taxable entity or not. (2 marks)

(Total: 20 marks)

Continued ...

QUESTION 5

Part A

Folicular Sdn Bhd, a resident company in Malaysia, is a subsidiary of Quirk Inc, a UK resident company. During the year ended 31 December 2022, Folicular Sdn Bhd received an extended loan from Quirk Inc amounted to RM700,000.

The purpose of the loan is to finance its operation centre in Malaysia. Interest is payable on this loan at an annual rate of 7% and the total interest payable to Quirk Inc for the year ended 31 December 2022 was RM48,000.

Required

(a) Explain with reasons, whether withholding tax would be applicable to the interest income receivable by Quirk Inc. (3 marks)

(b) Calculate the withholding tax payable on the interest income of RM48,000 receivable by Quirk Inc for the year ended 31 December 2022. (1 marks)

(c) State **TWO (2)** types of interest income derived in Malaysia by a non-resident person which are tax exempt under Sch 6 of the Income Tax Act. (2 marks)

Part B

Midoriya, a Japanese resident had acquired a house in Malaysia. He made full payment on 13 May 2019. The house was transferred to him on 1 June 2019. There was no written agreement for the purchase of the house.

He had incurred the following in connection with the acquisition of the house:

Expenditure	**RM**
Purchase price	168,000
Legal fees in defending the title	7,500
Stamp duty on transfer	18,000
Interest on mortgage loan	30,000
Cost of extension of the house	60,000
Total costs	**283,500**

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On 7 July 2022, Midoriya sold his house for RM350,000 as evidenced by the Sales and Purchase Agreement. He incurred the following expenditure in connection of the sales:

Expenditure	**RM**
Valuation fee	5,000
Advertisement cost	2,500
Real estate agent's fee	9,500
Total costs	**17,000**

In the year of assessment 2021, Midoriya received RM20,000 as the compensation for damages to his house caused by drainage work. He also received RM15,000 from a potential buyer who called off the deals, therefore forfeiting his deposit.

Required

(a) Determine the acquisition date and disposal date for the residential property. (2 marks)

(b) Calculate the Real Property Gains Tax payable by Midoriya on the disposal of the house. (10 marks)

(c) How would your answer in (b) change if the disposal of the house happens in the 6th years after the acquisition date. Explain and show the relevant workings to support your answer. 2 marks)

(Total: 20 marks)

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APPENDIX

The following rates and allowances are to be used in answering all questions:

Rates of Capital & Industrial Buildings Allowances for YA 2022:

Fixed assets/ Rate	Initial Allowance	Annual allowance
Motor vehicles, Heavy machinery	20%	20%
Computers	20%	20%
Plant & Machinery (general)	20%	14%
Office equipment, Furniture & Fittings	20%	10%
Industrial building	10%	3%

Rates of Real Property Gains Tax YA 2022

Real property	Malaysian Individual (Permanent resident or citizen)	Foreigners	Companies
Disposal within 3 years	30%	30%	30%
Disposal in the 4th years after the acquisition date	20%	30%	20%
Disposal in the 5th years after the acquisition date	15%	30%	15%
Disposal in the 6th years after the acquisition date or thereafter	0%	10%	10%

Rates of Forest Allowance YA 2022

Qualifying forest expenditure	Annual Allowance
Construction of roads	10%
Construction of labor quarters	20%
Construction of office building	10%

End of Paper